

23 July 1964

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Memorandum of Conversation with [REDACTED]

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In a series of two separate meetings on 19 and 21 July, I discussed generally the economic situation of Vietnam with [REDACTED]. I sought to cover several major areas -- (1) his general estimate of the economic situation in Vietnam, (2) a notion of the major economic activities or programs which might be undertaken in Vietnam, and (3) the inquiry into the potential inflationary impact of an expansion of US assistance and US activity in Vietnam.

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1. [REDACTED] continuously returned to the primary problem that it would be necessary to impose greater reliance on the Vietnamese budget, if any significant progress were to be made in improvement of the Vietnam economy. He pointed out that the Government of Vietnam looks at any basic development effort in terms of the revenue it will yield against the alternative revenue which will be available from US assistance. In terms of the recent and present level of US assistance, Vietnamese development activity always loses. That is, it is more attractive from a revenue point of view to seek additional US aid than to undertake or encourage domestic economic activity. [REDACTED] frequently expanded this notion to indicate that it is his opinion this extends beyond the basic economic phenomenon to military, political, and social phenomena as well, i.e., that it is easier to rely on US assistance, US personnel, and US activity, to meet these problems, than it is to undertake the frequently difficult decisions to enlarge local commitments to many of the objectives faced by the government. Some concrete examples of this relationship are probably necessary here. For instance, the development of local fabricating industries will produce a smaller tax base to the Government of Vietnam than will the import of the commodity which would be produced by this industry or industries under the US Commodity Import Program. The reader can, of course, supply an almost infinite number of similar illustrations.

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[REDACTED] furnished a military illustration by pointing out that there is a tendency for Vietnamese recruiting to bear a high inverse relationship to the willingness of the US to furnish additional military advisers.

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2. [REDACTED] opined that the most critical area of economic development at the present time was the reduction of urban unemployment and the restoration and expansion of the internal waterway and irrigation systems in the rural areas. He suggested that a large program of urban restoration and of low and medium cost urban housing

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furnish the optimum short-run opportunity for the reduction of urban unemployment. He indicated that the level of urban unemployment probably ought also to be attacked from the point of view of the reduction of the rural-urban migration. He pointed out that the combination of the corvee system and low government procurement prices for agricultural products in the countryside tend to encourage individuals to leave agriculture and go to the city where they are able to live better with only one or two days' work a week. He intimated that a substantial program directed at the restoration and improvement of the inland waterway system and local or small regional irrigation projects would substantially benefit the countryside both from the point of view of creating useful employment and considerably increasing agricultural productivity. Improvement of the irrigation systems would create the possibility for double cropping in a wide number of areas while improvement of transportation would sharply reduce the distribution cost both of agriculture inputs and principal agricultural products.

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3. [REDACTED]

encouraged the institution of a US program which would sharply differentiate between rural areas wholly under Vietnamese control from those under partial Viet Cong control. It was his judgment that a large part of the present US assistance to Vietnam is, in fact, going directly to the Viet Cong because we insist on placing a greater share of this aid in areas of joint tenancy (i.e., direct contest for control by the Vietnam and Viet Cong).

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4. [REDACTED]

opined that there would be little increase in private investment in Vietnam until there was considerable greater certainty of the ability of the Vietnam government to control the area which it presently claims. Even in the presence of greater stability, private investment would not be developed until there is some greater pressure on the Vietnam budget than presently exists. He indicates that there are large private resources available in the country which would be deployed if there were reasonable prospects of stability and a reasonable prospect for private profit. Presently, however, this money would have to compete with low price imports under the Commodity Import Program.

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5. [REDACTED]

indicates that the inflationary potential in Vietnam is the prime economic issue on the cocktail circuit there as it is here. Everyone seems to be at a loss to understand the basis for the relative stability of prices in the face of rapid increases in the money supply. Based on a fairly wide association with the urban middle and upper class in Saigon, he asserts that there are enormous cash hoards held by these groups. In many respects these hoards are a reflection of the instability of the last 25 years. He

suspects that there is little likelihood of the release of these funds except in a situation of near or complete collapse. This area of idle cash balances is considerably enlarged by the slow monetization of the rural economy and the recent rural increments to the urban economy. He points out that his favorite four-drink solution to this problem would be US borrowing from the Vietnamese through a series of selective maturities and transferabilities to finance US participation in Vietnam. [] avers that there has probably been too much price stability in agricultural products to secure an optimum distribution of labor between rural and urban areas of the country. In discussion of the considerable additions to the money supply which are estimated to take place in 1964, he indicated that he felt they would have no significant effect on the general trend of prices unless there were a critical threat to the stability of the regime. He based this on an estimate that there would be considerable increase in idle cash balances as heretofore and that the government would probably not be successful in expanding expenditures as fast as they had planned.

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6. In addition to these more fundamental areas of inquiry, [] discussed several separate but relevant points which I think bear repeating:

a. He pointed out that a member of his staff had done a correlation between large purchases of piastres in Hong Kong and Viet Cong attacks in Vietnam and discovered a correlation of almost unity.


b. He suggested that to the extent that US advisers are used outside of Saigon, that their role be patently subservient to local responsible officials. Failure to do this contributes directly and quickly to the argument of colonialism which has been effectively used by the Viet Cong.

c. That strict efforts be made to compel rigorous defense of AID assistance proposals in an effort to facilitate the control through the budget in Vietnam and to prevent AID encouragement of Vietnamese dependence on US resources. I suspect he would have made the same observation about the military.

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d. [] alleged that he could see little substance in the argument that local administrative and labor skills constitute any meaningful or immediate limitations on the range of economic or social projects which might be undertaken in the country. Indeed, he was of the opinion that a reduction in the vast governmental and bureaucratic intervention would lead to a considerable expansion of enterprise, both individual and collective.

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e. In passing,  indicated that there would be an immediate opportunity to expand the local production of sugar, tobacco, and cotton to the point where the country could be essentially self-sufficient if not an exporter of these items if appropriate rearrangements in the present assistance programs were instituted.

f. He indicated moreover that he had seen data in recent years on government land holdings that persuaded him that the government had considerable tracts of land which it could sell or distribute to peasants without any expense for additional land acquisition. He thought efforts should be made to encourage such sale as rapidly as possible.

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